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TRADING STAMPS AND THE RETAILER

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by

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INTRODUCTION

Trading stamps have had a long and controversial history. They have been praised, as well as criticized, by the consumers who save them and by the retailers who issue them.

This report is a brief history and background of trading stamp use. Although trading stamps will be discussed briefly from the consumer's point of view, the major emphasis of this report focuses on the retailer's use of trading stamps. Both the advantages and disadvantages of trading stamps will be studied in an attempt to determine the importance of trading stamps to the retailer.

This report is primarily a library study in which the literature on trading stamps from 1950 to the present time was reviewed. Earlier literature was used for background material but did not receive major emphasis. The major sources of information included books, magazine articles, and pamphlets which dealt with the subject of the retailer and trading stamps. Although not exhaustive, as much information as possible was surveyed.

BACKGROUND OF TRADING STAMPS

The use of premiums as a promotional device is not a recent competitive innovation. Premiums were used to promote sales more than 100 years ago; thus making them relatively old timers in the retail promotion field. The B. T. Babbitt Company, a major wholesaler of 1851, is credited as being the first to introduce a

systematic premium plan to help stimulate sales.[1]

In the 1860's, the Great Atlantic and Pacific Tea Company followed the lead of the Babbitt Company and became the first major retailer to use premiums to attract the consumer to their establishments. A&P used give-aways such as chromos, glassware, and majolica ware as incentives to attract the food buyers of the day.[2]

Trading stamps were first used as a promotional tool in 1892 when Schuster's Department Store of Milwaukee, Wisconsin, instituted a gummed stamp instead of an ordinary premium coupon. These gummed stamps could be pasted in a stamp book exchangeable for merchandise when the book was filled.[3] The stamp plan devised by Schuster was originally called the Blue Trading Stamp System, but was changed in 1905 to Schuster's Stamps. Under this early stamp plan, stamp savers were allowed $1.00 in merchandise or $0.70 in cash for a book of 500 stamps which represented the total purchases of $50.00 of retail goods.[4] This would be a discount of 2 per cent if redeemed in merchandise, or 1.4 per cent if redeemed in cash.

But trading stamps, as we know them today, were not developed until 1896. Thomas Sperry started a stamp company in 1896 that was later to become known as the Sperry and Hutchinson Company.

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[1] "Boom in Premiums," Business Week, May 14, 1938, pp. 27-28.

[2] Loc. cit.

[3] George Meredith, Effective Merchandising With Premiums, p. 148.

[4] Harvey L. Vredenburg, Trading Stamps, p. 14.

The trading stamp concept, as developed by Sperry, was quite similar to the stamp plans currently available to the retailers. Sperry's idea was to sell blocks of stamps to retailers, who would in turn offer the stamps to the consumer as a discount for cash purchases. Sperry realized that the stamp plan would be more effective to all participants if several stores used the same stamp. Sperry believed that the consumer could more quickly fill a stamp book by shopping at many stores that gave a common stamp. Sperry supplied all the materials necessary for a trading stamp program, such as premium catalogues, stamp books, and the premiums. The ratio of one stamp for each ten-cent purchase was introduced by Sperry, a ratio that is currently used and one that is quite popular.[5]

Except for the period 1910-1916, trading stamp usage grew slowly from 1900 to 1946. During World War II, several trading stamp companies went out of business while others greatly curtailed their operations. But with the end of World War II, the conditions in the economy began to change and so did the use of trading stamps. Most of the World War II restrictions on pricing and on inventory had been lifted by 1948 and the scene was set for the beginning of a promotional phenomenon such as no one had ever seen.[6]

The trading stamp was no longer an exclusive tool used by the smaller retailer; it had become a competitive device used

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[5] Loc. cit.

[6] Meredith, op. cit., p. 148.

against the small retailer by the larger retail establishments, both independents and chains. This became particularly true in the retail food field as the new type of retail establishment, called the supermarket, suddenly found that trading stamps could be used by it to great benefit.

The trading stamp boom was sparked by the Kroger Company in the mid-west in 1954.[7] From the mid-west, the trading stamp craze spread in all directions via the food supermarket.

There are several reasons why the food retailer led the trading stamp boom. First, supermarkets developed an excess capacity, due to their rapid expansion. One way that the food retailers could offset rapidly rising investment costs of new, modern stores was to increase sales. Generally, food retailer costs were fixed and selling margins were small. Only a slight change in sales volume could affect the profit picture greatly. The food retailer saw in trading stamps a possible means of expanding his sales that would help him decrease fixed costs as a percentage of sales and yield him a better selling margin.[8]

Secondly, many supermarkets were selling similar products, with similar prices, and were offering similar customer services. It was difficult for a supermarket to establish a personality or image of its own. The supermarket operator had to find something that would make his store different from the other supermarkets

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[7] "Trading Stamps: Bane or Boom," Business Week, May 19, 1956, p. 43.

[8] Ibid., p. 48.

in his trade area. An exclusive franchise for the use of a certain trading stamp would certainly differentiate a store from its competitors.

Finally, increased consumer mobility prompted supermarket chains to use trading stamps. Because of improved transportation facilities, the consumer was no longer limited to a single shopping area. Since one of the alleged advantages of trading stamps was to create consumer loyalty, the trading stamp seemed to be a solution to this problem.[9]

The supermarket was not the only retail establishment to take on trading stamps in the 1950's; the smaller food retailer continued to give trading stamps. The trading stamp also found its way into the gasoline station and drug store. Although the four retail types mentioned above are the biggest users of trading stamps, they are not the only retail establishments to use trading stamps. In fact, trading stamps have appeared in every form of retail business from beer halls and lunber yards to funeral homes and fish stores, from barber shops and bakeries to car dealers and welding shops; even self-service laundries and a large car rental firm have given trading stamps.

Table 1 shows some recent figures on the extent of the use of trading stamps in the United States. It uses a common classification of retailers for reasons of simplification.

Several interesting facts can be gleaned from Table 1. Although only 11 per cent of all food stores use trading stamps,

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[9] Vredenburg, *op. cit.*, p. 18.

Table 1. The extent of trading stamps in the United States, 1963.

Retail type	Per cent of classification
A. United States retail outlets issuing trading stamps. Year, 1963; all outlets, 11 per cent	
Food stores (much higher in supermarkets)	11
Service stations	35
Drug stores	16
GAF stores (general merchandise, apparel, home furnishings)	4
Dry cleaners	20
Hardware, lumber, supply, and paint stores	6
Auto accessories	4
Fuel oil and coal	7
Jewelry	5
Sporting goods	2
Feed and farm supplies	4
Photo shops	10
Auto dealers	1
B. Share of United States retail trade covered by trading stamps. Year, 1963; total, 18 per cent	
Retail type	Per cent of dollar volume
Food (mainly supermarkets)	47
Service stations	35
Dry cleaning	20
Drug stores	16
GAF stores (particularly department stores)	4
All others	5
C. Importance of retail outlets by number of stamps issued. Year, 1963; total, 100 per cent	
Retail type	Per cent
Food stores (including supermarkets)	76
Service stations	14
GAF stores	5
Drug stores	2.5
Dry cleaners	0.5
All others	2
	100.0

Source: Christian Fulop, The Role of Trading Stamps in Retail Competition, p. 43.

11 per cent has 47 per cent of the total food store sales. This indicates that the stores using trading stamps are the ones that do a large volume of business.

Table 1-B indicates that trading stamps have penetrated into only four retail areas in any great degree; these areas are food stores, service stations, dry cleaners, and drug stores. The retail food field is the only area in which trading stamps are highly successful as nearly half of the food industry sales are covered by stamps.

By examining Table 2, the growth of the use of trading stamps by retailers, particularly food dealers, can be seen. The phenomenal expansion of trading stamps into the retail food field did not begin until the mid-1950's. It was at that time that the supermarket stepped into the trading stamp field. From that time on, the food retailer carried the biggest share of the trading stamp boom. The food retailer is still the largest issuer of trading stamps.

The early development of trading stamps centered around the department store. The department store often served as a redemption center for the stamps that it and other retailers in the trade area issued. Since other retail stores used the same type of stamps that the department store used, this tended to attract customers to a certain group of retail stores that were dissimilar in nature, and this system gave each store the reinforced pull of the trading stamps used by the department store. The key store, or in this case, the department store, had to be one from which

Table 2. Growth of trading stamps in the United States, 1950-1962.

Year	Total retail sales (billion $)	Sales by stamp users (billion $)	% sales by stamp users	Total grocery sales (billion $)	Total grocery sales by stamp users (billion $)	% grocery sales by stamp users	% total stamp sales made by grocers
1950	143.683	1.360	1	33.193	0.332	1	24
1951	156.548	1.970	1	37.207	0.744	2	38
1952	162.353	2.640	2	39.970	1.599	4	61
1953	169.094	4.080	2	41.585	2.911	7	72
1954	169.135	5.810	3	43.590	4.359	10	75
1955	183.851	9.550	5	45.970	9.194	20	96
1956	189.729	18.300	10	47.800	14.340	30	78
1957	200.001	19.000	10	50.800	16.265	32	86
1958	200.353	20.000	10	53.075	17.515	33	86
1959	215.413	23.000	11	55.025	19.259	35	84
1960	219.627	27.700	13	57.850	21.405	37	77
1961	218.811	32.300	15	59.800	23.920	40	74
1962	234.718	37.200	16	60.000	28.200	47	76
1963 est.	244.000	39.000	16	62.000	29.140	47	75

Source: Christian Fulop, The Role of Trading Stamps in Retail Competition, p. 30.

the consumer purchased a good volume of merchandise each month.[10]

This pattern of trading stamp practice was disrupted when the department store was no longer the center of retail trade. This happened as shopping centers began to spring up in increasing numbers. The consumer now spread his purchases among three or four stores in a single shopping center. So the volume of consumer purchases was spread over several individual stores rather than being concentrated in a single store.

The supermarket suddenly found itself playing the role that the department store formerly played. The supermarket was a store the consumer visited quite regularly and in which he purchased a considerable volume of goods each month. So a new pattern of trading stamp use was developed and it was this pattern that carried trading stamps through their boom period of the 1950's. It is also the trading stamp pattern that exists at the present time.

TRADING STAMPS AND THE CONSUMER

The use of trading stamps would not have spread throughout the American retail scene had it not been for a major force in the economy--that force being the American consumer, and more specifically, the American housewife. As George Meredith brought out in his book, the housewife has taken to trading stamps with far more excitement than their intrinsic value would justify on

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[10] Albert Haring and Wallace Yoder, Trading Stamps and the Pricing Policy, p. 1.

any basis of logic.[11] This may be exaggerating the point, but the American consumer has been a big factor in the success of trading stamps.

There seem to be many individual reasons for the consumer's desire for trading stamps, but getting down to a general theory of stamp appeal, trading stamps apparently serve a dual purpose for the consumer since they satisfy two of her wants at once. In the first place, they satisfy the consumer's desire to be thrifty as she receives premiums without having to pay cash for them. If the consumer finds that she can obtain her highly valued stamps without an increase in the prices she pays for the goods she buys, she is obtaining a bargain. Even if prices rise slightly, the consumer may look on stamps as an inexpensive means of acquiring merchandise that she has always needed or desired. Trading stamps may satisfy the common American desire for more possessions. Trading stamps allow the consumer to obtain gifts and luxuries that their consciences might not allow them to buy outright.[12]

Studies by various psychologists have generally found similar results. Dr. Bertrand Klass, in his studies for the Stanford Research Institute analyzing the unconscious motives of consumers who save trading stamps, found that most trading stamp collectors derive intense emotional satisfaction from saving stamps. Dr. Klass also found that once a consumer starts collecting stamps

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[11] Meredith, op. cit., p. 149.

[12] "Trading Stamps: Ban or Boom"?, op. cit., p. 46.

she finds it very hard to stop.[13]

Even though trading stamps seem to be widely accepted by the consumer, many studies and surveys taken on consumer opinion of trading stamps have shown that the attitudes of the consumer towards stamps are very widely distributed along a scale from those completely in favor of trading stamps to those who detest trading stamps completely.

A recent study carried out in December of 1963 on behalf of the Institute of Economic Affairs of England found that trading stamps were not as important a factor in the consumer's decision about where to buy, as were other factors such as convenience, quality, and price. In other words, trading stamps were accepted by the consumer but he was suspicious of them on several grounds and he found them less important than many other elements in shopping. This study also found that about one fourth of the total interviewed were collecting trading stamps.[14]

Harvey Vredenburg stated the findings of a survey taken in 1954 by a national retail chain store company. This survey was taken to determine the importance of trading stamps to the consumer. It was also designed to determine not only the number of families saving stamps but to determine whether the consumer enjoyed saving trading stamps and if they were satisfied with the premiums they received. Vredenburg warned that the survey can be

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[13] Richard Hammer, 'Will Trading Stamps Stick"?, Fortune, August 1960.

[14] Fulop, op. cit., pp. 42-44.

considered only broadly indicative of the use of trading stamps because the areas covered in the survey were not weighted according to population. However, because the survey was fairly broad it gave an interesting representation of national averages.

In this early survey, 7,043 families in 238 towns were contacted. Of this group, 3,696 families reported that they were saving stamps, which is a 52.5 per cent total of all the families. Of these 3,696 families that claimed to save trading stamps, 96.5 per cent indicated that they enjoyed saving trading stamps. The survey also found that 87.4 per cent of the respondents expressed a satisfaction with the premiums they received, while the remaining 12.6 per cent were disappointed in their premiums.[15]

Other studies taken at this time (1953-1955) gave similar indication of the spread of trading stamps into the American home. A poll taken by the Des Moines Register in 1955 showed that 69 per cent of the families in Iowa saved trading stamps, 29 per cent reported they did not save stamps, and 2 per cent reported that they were not available.

A similar study was taken in the St. Louis area by the Eagle Stamp Company. In this survey, 995 persons were interview and 94.5 per cent reported that they saved trading stamps.

A University of Denver study indicated that early in 1954, 70.1 per cent of all Denver families were buying groceries at stores giving stamps. This, however, does not indicate that all these families save trading stamps.[16]

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[15] Vredenburg, op. cit., pp. 20-21.

[16] Ibid., pp. 20-22.

A more noted study is one done by Albert Haring and Wallace Yoder at Indiana University. This study, conducted in Indianapolis, Indiana, in 1957, amongst 1,015 families, found the appeal of trading stamps to be varied. Although the study found that 82.5 per cent of the families surveyed reported that they had some sort of trading stamp on hand, a closer look at the total percentage breakdown gave a better idea of the appeal of stamps. There were 17.5 per cent of the families reporting to be non-savers, plus another 37.5 per cent whose interests in trading stamps were more or less passive. Of the remaining 45 per cent of the families who showed more than nominal interest in trading stamps, only about half or 22.5 per cent could be classified as truly active savers. The other half had an active interest in trading stamps but their interest was less intense.[17]

The importance of these studies is not that they can determine the exact number of families in an area that save trading stamps, but that a large number of United States families do shop at stores where trading stamps are issued. These studies can become a problem in semantics if one tries to determine what is meant by the "passive saver" or what is meant by the "passive active saver." The heart of these studies simply shows that a large number of American families do come into contact with trading stamps.

The previously mentioned studies have shown that the American consumer has come to widely accept trading stamps as a means of

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[17] Haring and Yoder, op. cit., p. 3.

getting "something for nothing." This brings up the question: Should the consumer accept trading stamps with a childlike faith and assume that trading stamps do give her something for nothing or should she question their value?

Trading Stamps Value to the Consumer

In this day and age of modern technology, nothing is left to be assumed when a study or a survey can be made on the question. Just as there were many studies on the appeal of trading stamps to the consumer, there were just as many dealing with the value of trading stamps to the consumers. Several of the more reliable studies have been carried out by the Marketing Division of the U.S. Department of Agriculture. The Haring and Yoder study, mentioned earlier, also is looked upon as one of the more reliable studies. A more recent study was carried out by Verne Bunn of Wichita, Kansas, which concerned trading stamps and consumer food prices. A review of these studies should give some indication of the value of trading stamps to the consumer.

The earliest study conducted by the U.S. Department of Agriculture in 1956 was a small study dealing with several of the questions that had arisen over trading stamps. This study contained no research on stamps done by the USDA but only brought together early findings that had been completed by others for various books and magazines. So in this respect the study becomes more of a summary than an original research project.

This first USDA study came up with the following conclusions about trading stamps and their value to the consumer: If the

prices of food products remain unchanged with the use of trading stamps, the consumer will benefit by an amount equal to the value of the stamps received. The value of trading stamps to the consumer is derived mainly from the premiums obtainable for them, but there may also be psychological values associated with the trading stamp process of collection and redemption that are not reflected in the market value of the stamps.

This study made some attempt to determine how many retailers using trading stamps increase their prices on their merchandise and thus decrease the value of the stamps to the consumer, but the study felt that not enough research had been done in this area to come up with any hard fast conclusions.[18]

The second USDA report on trading stamps, issued in May of 1957, came up with more definite statements than the first report.

With so much consumer interest in stamps it might be assumed that the consumer would have some idea of what money value the stamps are to her. This was not the case, as 45 per cent of the people interviewed had no idea at all of what the money value of a book of stamps was; while others made guesses ranging from $1 to $8 a book. It appeared that stamp savers had a better idea of the value of a book of stamps than did non-savers.

A small pricing study made by the Market Organization and Costs Branch of the Agriculture Marketing Service gave some indication of the money value of stamps. Table 3 shows how the

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[18] "Do Trading Stamps Affect Food Costs"?, Marketing Research Report 147, U.S. Department of Agriculture Marketing Service Bulletin, pp. 3-4.

Table 3. Average dollar value per book of stamps and rate of return on $150 expenditure based on manufacturer's list prices and average department store and discount house prices, Washington, D.C., November 1956.

Item	Dollar value/ book of stamps based on average			Average rate of return[1]		
	List prices	Department store prices[2]	Discount house prices	List prices	Department store prices[2]	Discount house prices
	Dollars			Per cent		
Portable mixer	3.74	2.53	2.40	2.49	1.69	1.60
Automatic toaster-A	3.74	2.53	2.51	2.49	1.69	1.67
Automatic toaster-B	3.74	2.70	2.70	2.49	1.80	1.80
Roaster oven	3.46	2.63	2.45	2.31	1.75	1.63
Steam-dry iron	3.74	2.46	2.45	2.49	1.64	1.64
Aluminum ¼-qt. Dutch oven	--	4.07	--	--	2.71	--
Dictionary	--	3.33	--	--	2.22	--
Median value	3.74	2.98	2.51	2.50	1.99	1.67
Range in value	3.46-5.22	1.70-4.25	2.32-3.44	2.31-3.43	1.13-2.83	1.55-2.29

1 Based on a rate of return of one stamp for each 10-cent purchase and an expenditure of $150 to fill a book of 1,500 stamps.

2 Do not have to maintain manufacturer's list prices.

Source: "Trading Stamps and the Consumer's Food Bill," Marketing Research Report 169, U.S. Department of Agriculture Meeting Service Bulletin, p. 6.

various values were determined. It shows a wide variation in the money value of stamps that comes about by just changing the

pricing base. The percentage return to the consumer based on an expenditure of $150 ranged from the high based on manufacturers' list prices giving a range of 2.31 to 3.48 per cent to the low end using discount house prices which gives a range of 1.55 to 2.29 per cent. If the consumer requires more than $150 to fill a book of stamps, his return naturally is lowered.[19]

To conclude their report, the USDA stated the following:

> Until more information is available on the effects of trading stamp plans on prices of goods purchased, no generalization can be drawn as to whether a consumer gets something for nothing, pays part, all or even more than the cost of similar merchandise purchased for cash. . . . Consumers will have to evaluate grocery store prices and the merits of merchandise obtained for stamps the same as they would in any other buying situation.[20]

The third USDA report on trading stamps helped answer many of the questions and doubts that were raised by the first two reports. This report drew the following conclusions about the effect of trading stamps on the consumer: The consumer should be interested in trading stamps for two main reasons. She should be concerned about their effect on retail prices and also she should be concerned about the money value of the stamps to her. The return the consumer can receive from trading stamps will vary from situation to situation and may range from 1 2/3 to 2 1/2 per cent, as was shown in an earlier study. The results of this survey indicated that average prices paid by consumers in stamp stores were 0.6 per cent more than the prices in non-stamp stores. This

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[19] "Trading Stamps and Consumer's Food Bill," Marketing Research Report 169, U.S. Department of Agriculture Marketing Service Bulletin, pp. 3-6.

[20] Ibid., p. 7.

difference is equal to about 30 per cent of the average merchandise value of stamps to the consumer. This was based on analysis of a special tabulation of retail food prices in 21 cities, collected by the Bureau of Labor Statistics for the Consumer Price Index. The data analyzed covered the period from November 1953 to March 1957.

On the average, it appeared that consumers who save and redeem their stamps can more than recoup the price difference between non-stamp and stamp stores.[21] However, individual consumers who do have a choice between stamp and non-stamp stores should compare prices, quality of food, and services offered in both stores in relation to the value of the premiums obtained by saving stamps, in deciding whether saving trading stamps is worthwhile to her.

Stamps and Consumer Food Prices

The study carried out by Haring and Yoder at the University of Indiana attempted to determine if trading stamps did raise the level of food prices in areas where stamps were heavily used by food stores. In this study the question was approached in the following manner: The country was divided into three areas: Eastern, Middle-Western, and Western. In each area a number of cities were chosen that had felt the influence of trading stamps. Then a base city was chosen and an index was computed of the food prices before trading stamps were put into use (1951). The data

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[21] "Trading Stamps and Their Impact on Food Prices," Marketing Research Report 295, U.S. Department of Agriculture Marketing Service Bulletin, p. 28.

for the computations were supplied by the Bureau of Labor Statistics, Retail Food Prices by Cities. Eight cities were analyzed in the east, eight in the mid-west, and four in the far west.

After this analysis was completed, Haring and Yoder then computed another index, similar in fashion and construction to that used to analyze the three regions, which compared fifteen stamp city prices with those of five non-stamp city prices.[22]

The following conclusions were reached about the rate of change of food prices in cities where stamps were very prominent and in cities where stamps were not used at all:

a. In comparing the food price index of a stamp city with a relatively stamp-free city, on a city-by-city basis, there was no evidence found that indicated the food price index of a city would rise when trading stamps were introduced into that city.

b. The food price indexes in stamp dominated cities were found to vary in a similar manner to the food price indexes in the control cities.

c. The average of food price indexes for the fifteen large cities where stamps were an important element in the retail food business showed a pattern of variation similar to that of the average of the indexes for the five cities where stamps were not a factor in the food business.

d. A general conclusion was reached that the findings of the analysis did not support the hypothesis that trading stamps raise food prices.[23]

One of the more recent studies in the area of trading stamps and their influence on food prices was made by Verne A. Bunn of Wichita State University. The study, published in September 1962, covered a period of time from February 1960 to June 1962 and was

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[22] Haring and Yoder, op. cit., pp. 10-16.

[23] Ibid., pp. 17-18.

conducted in a five-state area. Four separate studies were made comparing the different states: (1) Kansas and Missouri, February 1960, 16 stores were studied; (2) Kansas, Missouri, and Oklahoma, August 1961, 35 stores were studied; (3) Kansas and Missouri, June 1962, 24 stores were studied; and (4) Montana and Wyoming, June 1962, 57 stores were studied. In these studies, a total of 132 retail food stores were investigated: 69 of them offered trading stamps while 63 of them did not.[24]

The study of Kansas-Missouri food prices in February of 1960 found no evidence that trading stamps tended to increase retail food prices. In fact, Mr. Bunn found that there was some indication that food prices were slightly higher in Kansas where stamps were prohibited by law.[25] Table 4-A shows the results of the price study.

The second study in Kansas-Missouri-Oklahoma was designed to serve a dual purpose. One purpose was to remeasure the area studied earlier. Secondly, it was to expand the scope of the study to include a larger area involving stamp and non-stamp stores. The results of this study were quite similar to those of the earlier study in that it showed that food prices in stamp stores were no higher than prices in stores which did not use stamps. As before, it was found that prices were slightly higher in Kansas stores where stamps were not used than in Missouri stores where stamps are used[26] (see Table 4-B).

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[24] Verne A. Bunn, Trading Stamps and Retail Food Prices, p.11.

[25] Ibid., pp. 12-13.

[26] Ibid., pp. 16-20.

Table 4. Price comparisons between stamp and non-stamp stores in Kansas, Missouri, Oklahoma, Montana, and Wyoming, 1960-1962.

Supermarket	Kansas City, Missouri: Market Basket	Kansas City, Missouri: Index	Kansas City and Topeka, Kansas: Market Basket	Kansas City and Topeka, Kansas: Index
A. Price comparisons between stamp and non-stamp stores in Missouri-Kansas, 1960.				
Kroger	$16.228*	99.86	$16.250	100.00
Milgrams	15.754*	99.09	15.899	100.00
Safeway	15.844*	99.28	15.959	100.00
Average	15.474*	99.43	16.046	100.00
A&P[1]	15.474	100.29	15.429	100.00
Average, including A&P	15.835	99.66	15.892	100.00

Source: Verne A. Bunn, Trading Stamps and Retail Food Prices, pp. 13-14.

B. Price comparisons between stamp and non-stamp stores in Missouri-Kansas-Oklahoma, 1961.

	Kansas City, Missouri		Kansas City and Topeka, Kansas	
Kroger	$16.257*	99.72	$16.294	100.00
Milgrams	16.246*	98.57	16.481	100.00
Safeway	16.388*	99.12	16.532	100.00
Independents[2]	16.391*	99.30	16.507	100.00
Average[3]	16.310*	98.93	16.487	100.00
A&P[4]	16.125	100.22	16.090	100.00
Average, including A&P	16.269	99.33	16.378	100.00
	Tulsa, Oklahoma		**Wichita, Kansas**	
Safeway	$16,536*	97.87	$16.896	100.00
Independents[5]	16.689*	99.70	16.739	100.00
Other chains[6]	16.606*	98.15	16.919	100.00
Average	16.630*	98.63	16.861	100.00

Source: Verne A. Bunn, Trading Stamps and Retail Food Prices, pp. 18, 20.

Table 4 (cont.).

Supermarket	Kansas City, Missouri: Market Basket	Kansas City, Missouri: Index	Kansas City and Topeka, Kansas: Market Basket	Kansas City and Topeka, Kansas: Index
C. Price comparisons between stamp and non-stamp stores in Kansas-Missouri, 1962.				
A&P	$15.349*	99.50	$15.416	100.00
Independents[2]	15.670*	99.82	15.699	100.00
Kroger	15.738*	100.15	15.714	100.00
Milgrams	15.621*	100.11	15.603	100.00
Safeway	15.751*	99.86	15.771	100.00
Average	15.597*	99.77	15.634	100.00

Source: Verne A. Bunn, Trading Stamps and Retail Food Prices, p. 25.

D. Price comparisons between stamp and non-stamp stores in Montana-Wyoming, 1962.

State	Market Basket	
Montana:		
Billings, average	$17.183	
Butte, average	17.254	
Butte, average excluding non-stamp stores	17.246	
Great Falls, average	17.300	
Great Falls, average excluding non-stamp stores	17.218	
Harve, average	17.208	
Helena, average	17.296	
Missoula, average	16.771	
Missoula, average excluding non-stamp stores	16.871	
Montana, average		$17.169
Montana, average excluding non-stamp stores		17.170
Wyoming:		
Casper, average	$17.278	
Cheyenne, average	17.004	
Laramie, average	17.564	
Sheridan, average	17.118	
Wyoming, average		$17.241

Source: Verne A. Bunn, Trading Stamps and Retail Food Prices, pp. 32-34.

Table 4 (concl.).

Explanation of table notations:

[*] Denotes stores using trading stamps.

[1] Did not use stamps in either state.

[2] Includes Associated Grocers Stores in Kansas City, Missouri and Kansas City, Kansas and IGA stores in Topeka, Kansas.

[3] This figure is derived by adding together the market baskets of all stores, exclusive of A&P, and dividing by the number of stores.

[4] Did not use stamps in either state.

[5] IGA states in both cities, Sipes and B&B Market in Tulsa.

[6] Dillons and Mammels in Wichita and Humpty Dumpty in Tulsa.

The third study was carried out in Kansas and Missouri in June of 1962. It was hoped it would answer the question, "Now that A&P has gone stamps, what effect might this have had on the pricing of A&P as well as on competitive food stores"?

The study found that the use of trading stamps apparently had no tendency to increase A&P prices despite the fact that A&P was a late comer in the field of stamp use in an already established stamp market. In general, prices among other stamp stores showed the same general tendency that had been found in the two earlier studies to run slightly below their non-stamp counterparts in Kansas[27] (see Table 4-C).

The Montana-Wyoming study was carried out to determine if the same price relationships as had been found in Kansas and Missouri would prevail in other areas. The conclusions drawn from the study

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[27] Ibid., pp. 24-26.

were that there is no indication that food prices in Montana stores using trading stamps are any higher than prices in Wyoming stores where stamps are not used. So it appears that the situation found to prevail in the Kansas-Missouri study also was present in the Montana-Wyoming study[28] (see Table 4-D).

The general conclusion that can be drawn from this study by Mr. Bunn is that even though factors affecting the price structure of a retail food store are many and varied, there is no indication that the use of trading stamps, viewed independently, caused food prices to rise.

Although the preceding studies do not prove any point conclusively about trading stamps on a national scale, and even though they have been criticized for various faults in methodology, they do serve a purpose.[29] Assuming the studies to be somewhat reliable, especially the USDA Marketing Report, the consumer can feel that she is receiving something of value from her trading stamps--although how much value is highly uncertain.

TRADING STAMPS AND THE RETAILER

The discussion so far has been concerned with stamps and the consumer's welfare. It has been shown that the consumer desires trading stamps because she believes she is getting something for nothing and that the consumer does actually receive something of

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[28] Ibid., pp. 29-31.

[29] See Christian Fulop's The Role of Trading Stamps in Retail Competition for more information on this point. It is not of major concern in this report (pp. 23-24).

value. But what about the retailer and trading stamps--are trading stamps of benefit to the retailer? Can trading stamps be a foe, as well as a friend, to the retailer?

From the amount of opposition to trading stamps by trade associations and retail groups, it may be assumed that some retailers feel trading stamps to be a vicious foe. Then again, there is the other side of the story that comes from the stamp companies and from retailers who have used trading stamps successfully and who say that stamps are a true friend to the retailer.

Advantages of Trading Stamps to Retailers

Although there are many different types of stamp plans, most of them are designed to do the same thing. They are designed to create consumer loyalty for stores giving the same type of trading stamp. Trading stamps will supposedly hold the patronage of present customers and encourage them to purchase more from the store. They are also supposed to draw customers away from competitors who do not give trading stamps. These are a few of the advantages trading stamps allegedly give to the retailer. A more detailed discussion of these and many other advantages will follow.

Increased Sales Volume. The largest single advantage offered by trading stamps is that of increased sales volume. It is this advantage that is the most widely acclaimed by retailers who have found trading stamps to be successful for them. There are tales of retailers who increased their sales over 100 per cent after adopting trading stamps and there also are stories of retailers whose sales decreased decisively after they began using trading

stamps. These cases are extreme examples, but in most cases retailers reported that trading stamps do increase sales volume and at times by a considerable amount.

In reviewing studies showing sales increases due to trading stamps, one important consideration should be made. There are many variable factors, besides trading stamps, influencing sales. Just because sales increase after the addition of trading stamps there is no certainty that stamps were the only reason for the increase. Store location, customer services, progressive management, and other factors cannot be overlooked as being partially responsible for the increase in sales.

In Table 5 are some of the results as reported by several grocery chains that used trading stamps during the stamp boom of the 1950's. Also included in the table are the sales volumes of several grocery chains that did not issue trading stamps during the period.

The results, as shown in 5-A, are more the exception than the rule and in most cases the use of trading stamps did not bring about such spectacular increases in sales volume. A survey by Super Market Merchandising magazine in 1953, taken among 19 food store chains that had adopted trading stamps since 1951, reported an average sales increase for all stores of 27.5 per cent. Table 6 shows the results of that survey.

A survey conducted in 1955 by the Super Market Institute studied its 371 members who operated a total of 3,615 stores. It found that 40 per cent of its member stores were giving trading stamps. SMI also reported that the 40 per cent that were using

Table 5. Comparison of sales volume increases of grocery chains using stamps with those not using stamps, 1956-1959.

Store	Sales volume: 1956 without stamps (million $)	Sales volume: 1959 with stamps (million $)	Per cent increase
A. Stores using trading stamps.			
Grand Union	374.0	603.5	61
Fair Food	475.0	734.0	55
Kroger	1,492.5	1,912.0	28
Winn-Dixie	358.6	666.4	57

Source: Richard Hammer, "Will Trading Stamps Stick"? _Fortune_, August 1960, pp. 116-119.

B. Stores not using trading stamps.

Store	Sales volume: 1956 without stamps (million $)	Sales volume: 1959 without stamps (million $)	Per cent increase
A&P	4,481.9	5,048.6	13
First National	507.4	525.4	3.5
Safeway	1,989.3	2,383.0	20

Source: _Moody's Handbook of Widely Held Common Stock_, 3rd Edition, 1964.

Table 6. Comparison of sale increases among 19 food chains that adopted trading stamps, 1953.

Per cent of stores	Sales increase
5.3	80-100
10.5	60- 79
0.0	40- 59
31.6	20- 39
31.6	1- 19
10.5	No increase
10.5	No answer

Source: Harvey L. Vredenburg, _Trading Stamps_, p. 93.

trading stamps had experienced a 17 per cent increase in their sales volume, while the remaining 60 per cent that did not use trading stamps experienced only an 11 per cent sales increase.[30]

Another study was made by the United States Department of Agriculture to evaluate the impact of trading stamps on retail sales volume. This was done by comparing the sales of five major retail food chains which added stamps in 1955 and in the first quarter of 1956 with five major food chains which did not. At the completion of this study in 1957, the five stamp chains operated 3,904 stores and the five non-stamp chains operated 5,680 stores.

From Table 7 it can be seen that both groups of stores had sales increases in each of the years studied, and in the four years before stamps were introduced the two groups maintained a fairly stable proportion of the total sales as shown in Table 8. The proportional shares averaged 63 per cent for the non-stamp chains and 37 per cent for the stamp chains during the 1951-54 period. But with the addition of stamps in 1955, the five stamp stores began gaining ground on the non-stamp stores. After 1955, both groups experienced sales increases, but the five stamp chains increased their sales at a greater rate. The five stamp chains had averaged 37.1 per cent of the total sales of both groups in the four years before stamps were added; with the addition of stamps to the chains in 1955, their share of the total sales increased to an average of 41 per cent in 1956-57. This amounted to

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[30] "Super Market Collects Evidence On Trading Stamps," Business Week, Sept. 22, 1956, p. 54.

Table 7. Index of sales volume for five stamp and five non-stamp food chains, 1951-1957 (index of sales for 1951-54 equals 100).

Group	Index before stamps: 1951	1952	1953	1954	Index after stamps: 1955	1956	1957
5 stamp chains	93	95	102	110	120	137	148
5 non-stamp chains	90	98	104	109	114	118	126
10 chain average (stamp & non-stamp)	91	97	103	109	116	125	134

Source: "Trading Stamps and Their Impact on Food Prices," Business Week, Sept. 22, 1956, p. 26.

Table 8. Percentage distribution of retail sales by five stamp and five non-stamp food chains, 1951-1957.

Group	Share before stamps: 1951	1952	1953	1954	Share after stamps: 1955	1956	1957
5 stamp chains	37.2	35.6	36.9	37.6	38.8	40.7	41.2
5 non-stamp chains	62.8	63.4	63.1	62.4	61.2	59.3	58.8

Source: "Trading Stamps and Their Impact on Food Prices," Business Week, Sept. 22, 1956, p. 26.

a 10.5 per cent increase in the share of the five stamp stores while the five non-stamp stores experienced a 6.1 per cent loss in their share of total sales during this period.

A study carried out by Taylor Meloan and Bert McCammon of the Indiana University School of Business, in Indianapolis, Indiana, during 1956-57 studied the use of trading stamps by the small retailer. There were 293 retailers studied, with 90 using trading stamps at the time of the study; 59 had used trading stamps previously but were not at the time of the study; 107 did not use

trading stamps at all. These retailers covered a wide spectrum of retail types including food retailers, drug stores, appliance stores, dry cleaners, and gas stations.

In this study the retailers were asked to compare their 1956 sales with their 1954 sales. The results of the individual comparisons were then combined into group totals in order to study the sales results of the three categories of retailers.

Over 50 per cent of all the retailers reported that their 1956 sales were above their 1954 sales. Of these three categories, the ex-trading stamp users showed the biggest percentage gain in 1956 over 1954. The summary of this portion of the study can be seen in Table 9.

Table 9. Changes in sales reported by 246 small Indianapolis retailers, 1954-56.

Classified as of November 1956	Sales higher in 1956 than in 1954		Sales lower in 1956 than in 1954		Sales in 1956 comparable to 1954	
	Number	Per cent	Number	Per cent	Number	Per cent
Stamp retailers	42	56.8	12	16.2	20	27.0
Non-stamp retailers	66	54.1	26	21.3	30	24.6
Ex-stamp retailers	29	58.0	11	22.0	10	20.0
Total all stores	137	55.7	49	19.9	60	24.4

Source: Taylor Meloan and Bert McCammon, "Use of Trading Stamps by the Small Retailer," Journal of Marketing, October 1958, p. 176.

Although this study does not indicate the amount of sales increase or decrease, it does point out an interesting fact. Both trading stamp and non-trading stamp stores reported their sales

increased during the 1954-56 period. This was due partly to the increase in population during this period. So trading stamps alone cannot be credited with the total sales increases of the stamp stores because stores not using trading stamps experienced increases during this period also. To determine the influence of trading stamps, the amount of the sales increase for each store would have to be studied along with other influencing factors and this was not done in the above study.

Trading stamps can bring about increased sales volume for the retailer as has been shown by the above studies and surveys. There is, however, no set rule on the amount that trading stamps will increase sales. The increase can be very large or it can be very small, depending upon the competitive situation into which the stamps are introduced. This topic is discussed in the following section.

Improved Operating Ratios. Another alleged advantage of using trading stamps is that they improve margins and expense ratios. This is an area in which the retail operator is very interested, especially if margins are low and expenses high. Margins and expense ratios can be improved sometimes through the use of trading stamps because the major part of a retailer's operating costs are fixed and any sales increase will bring about a decline in the average operating cost per dollar of sales.

Robert Blatt, using figures gathered by the Progressive Grocer magazine, compiled a table showing the changes in percentage costs in a typical supermarket operation using trading stamps which brought about a sales increase of 33 per cent. Mr. Blatt

assumed that trading stamps were the causal factor for the increase in sales. These figures, as shown in Table 10, appeared in Mr. Blatt's thesis submitted to the Graduate School of the University of Minnesota.

Table 10. Results of a 33 per cent sales increase on the expenses of a typical supermarket, 1954.

Expense item	Per cent of sales: Before stamps	Per cent of sales: After stamps
Advertising	0.77	2.58
Wrapping material	1.02	1.02
Owner's salary	1.15	0.86
Other salaries and wages	6.28	4.71
Rent	1.21	0.91
Donations and dues	0.04	0.03
Telephone	0.04	0.03
Miscellaneous store supplies	0.19	0.14
Utilities	0.94	0.71
Loss on bad accounts	0.03	0.025
Interest paid	0.04	0.03
Repairs and depreciation	0.97	0.73
Insurance	0.11	0.08
Taxes, permits, licenses	0.22	0.17
Social Security	0.20	0.15
Other expenses	0.28	0.21
Total expenses	13.49	12.37

Source: George Meredith, Effective Merchandising With Premiums, pp. 152-3.

By applying the percentages shown in Table 10 to a simple example, the effect of the expense changes can be seen on profits. The following example assumes sales before stamps of one million dollars and a cost of goods sold of 75 per cent, before and after stamps.

	Before stamps	After stamps: 33 per cent increase in sales
Sales	$1,000,000	$1,330,000
Cost of goods sold	750,000	997,500
Gross profit	250,000	332,500
Expenses	134,900	164,521
Net profit	$ 115,100	$ 167,979

This would mean a 46 per cent increase in net profit for this particular firm. With a small increase in sales, the decline in the percentage of costs might be negligible, but even with the same percentage there would be increased dollar profit due to the increased sales volume.

The Voluntary and Cooperative Groups Magazine made a similar study of the effect of a trading stamp program on the gross profit ratios, expense ratios, and net profit ratios of several retail food stores. Table 11 shows trading stamps bringing about sales volume increases ranging from 13.61 per cent to 54.02 per cent; gross profit ratios increasing from 0.11 per cent to as much as 11.19 per cent; expense ratios were found to vary considerably as some increased and others decreased; net profit ratios varied from a 0.78 per cent decrease to a 5.63 per cent increase.

This brings out an interesting point about trading stamps: trading stamps may be able to bring about an increase in retail sales but the cost of using them may not be covered by the increase in sales. This point will be discussed at a later time.

The study mentioned earlier by Meloan and McCammon of the small retailers in Indianapolis found that the profit of the retailers had increased at a lower rate than sales. Only one third

Table 11. Effect of trading stamps on operating ratios of a group of food stores.

Weekly sales increase	Gross profit ratio Before	Gross profit ratio After	Expense ratio Before	Expense ratio After	Cost of stamps	Net profit ratio Before	Net profit ratio After
	Per cent						
18.32	15.65	16.79	15.99	15.80	1.83	-0.34	0.99
13.61	15.84	17.65	15.18	14.70	2.43	0.66	3.18
17.78	18.33	21.52	20.77	18.33	2.00	-2.44	3.19
30.55	17.98	17.47	13.09	13.36	2.06	4.89	4.11
15.37	14.76	16.22	12.92	13.47	2.06	1.84	2.48
47.60	18.19	17.15	16.74	15.47	2.03	1.45	1.68
24.20	18.01	18.12	16.23	15.72	2.06	1.78	2.40
21.05	17.38	18.35	15.02	13.20	2.10	2.36	5.05
50.09	17.76	17.92	15.08	14.95	2.00	2.68	2.97
39.48	18.70	18.52	16.43	15.89	2.06	2.27	2.63
21.50	16.02	16.42	12.88	15.95	2.09	3.64	3.47
21.90	11.92	13.93	12.05	13.28	2.10	-0.13	0.65
31.24	17.57	18.84	13.39	14.37	2.16	4.18	4.47
27.16	15.88	16.34	13.62	13.71	2.03	2.62	2.63
54.02	15.38	16.12	11.89	12.71	2.11	3.40	3.41
22.97	14.57	15.76	11.54	12.20	2.03	3.03	3.56

Source: C. M. Bryon, "Trading Stamps--Menace? or Magic," The Voluntary and Cooperative Groups Magazine, reprint, March 1954, p. 4.

of all the retailers studied reported that their profits were higher in 1956 than they were in 1954 (see Table 12).

This study does not give the amounts of increases or decreases but gives only the number of retailers experiencing increases or decreases. It is of importance, however, as it compares the results of stamp and non-stamp stores. It also gives some indication of general business trends, and helps to discount increases credited wholely to trading stamps.

Redistribution of Sales. Another advantage attributed to trading stamps is that they can help to spread the sales volume more evenly over the entire week instead of jamming it into several

Table 12. Changes in dollar profits reported by 246 small Indianapolis retailers, 1954-56.

Classified as of November 1956	Dollar profits higher in 1956 than in 1954		Dollar profits lower in 1956 than in 1954		Dollar profits in 1956 comparable to 1954	
	Number	Per cent	Number	Per cent	Number	Per cent
Trading stamp retailers	25	33.8	28	37.8	21	28.4
Non-stamp retailers	39	32.0	43	35.2	40	32.8
Ex-stamp retailers	19	38.0	20	40.0	11	22.0
Total all stores	83	33.7	91	37.0	72	29.3

Source: Taylor Meloan and Bert McCammon, "Use of Trading Stamps by the Small Retailer," Journal of Marketing, October 1958, p. 177.

rush days. This is usually accomplished by offering a double stamp on a day that is usually a slow day for the store.

It seems that Texas food stores have used double stamp days with some success. The Super Value Stores of Houston, Texas, tried this trading stamp technique with successful results. By offering trading stamps, the Super Value stores increased their gross profit by \$100-\$150 per week and by offering a double stamp bonus on Tuesdays, the slowest day of the week for their stores, they increased their Tuesday sales from \$2,700 to \$10,000. So not only were Super Value's profits increased but there was less variation among the daily sales.[31]

[31] "Trading Stamps: Bane or Boom," op. cit., p. 58.

The Worth Stores in Fort Worth, Texas, have been giving their customers double stamps on purchases of $2.50 or more made on Wednesdays. This has made Wednesday the second largest sales day of the week, exceeded only by Friday which is the largest day in most food stores.

A store in a smaller Texas town of 6,000 used Tuesday as a double stamp day. Its sales on Tuesday had ranged from $900 to $1,100. After using trading stamps for three months, Tuesday's sales ranged from $3,400 to $4,000.[32]

The retail food merchandiser was not alone in his successful use of trading stamps to "even out" sales patterns. In an article in the <u>American Drycleaner</u>, several instances were reported by various dry cleaning establishments where trading stamps helped to eliminate or decrease seasonal drops in business. Reports from such widespread areas as Portland, Oregon, and Atlanta, Georgia, related how business was maintained at near normal levels during the usually slow months of January and February after trading stamps were adopted.[33]

<u>Additional Advantages</u>. Besides the three major advantages discussed above, Vredenburg suggested several additional advantages that are offered by trading stamps. They help to stabilize the retailer's business as the customers become stamp savers, and

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[32] C. M. Byron, "Trading Stamps--Menace? or Magic"?, <u>The Voluntary and Cooperative Groups Magazine</u>, reprint, March 1954, p. 4.

[33] "Trading Stamps--Friend or Foe"?, <u>American Drycleaner</u> April 1956, reprint, p. 2.

they return regularly to purchase more of their daily needs from the same store. When the consumer becomes loyal to a store because of the trading stamps it offers, it is likely that she will buy the more profitable items as well as the specials. This improves the profit ratio as well as the rate of turnover. The more stamp conscious the consumer, the truer this statement becomes. If the retailer can count on a stable market it will help him sustain markups and reduce inventory requirements, which results in better rates of stock turnover with corresponding reductions in space, investment, and insurance costs.

Another advantage of trading stamps over other types of promotional devices is that the promotional effect of trading stamps is sustained. Most promotions that are used by retailers have very short lives and wear out quickly as the consumer tires of them. In most cases this is not true with trading stamps. Most supermarkets report that they can still provide a substantial sales gain up to two years after they are introduced. The Super Value Stores, Inc. reported that trading stamps were still increasing their sales even after two years of use.[34]

Trading stamps also help to reduce credit sales as stamps are given only on cash purchases. Even though there will be some credit sales the biggest share of the consumers would rather receive their trading stamps than to make their purchases on credit.

When trading stamps are used the retailer has less need to run specials, to cut prices, or to offer loss leaders. Retailers

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[34] Vredenburg, op. cit., p. 105.

also report that management time is saved by using trading stamps as the operator does not have to devote so much of his time and effort to preparing, planning, and carrying out promotional and sales programs. In most situations, trading stamps are enough of a promotion in themselves and have no need for additional support.

Trading stamps also help to facilitate other store operations that can be time-consuming and bothersome to the efficient operation of a store. It has been found that trading stamp programs can be designed to reduce slow collections, deliveries, phone orders, and other such customer services.[35]

Disadvantages of Trading Stamps

With any type of promotional tool there undoubtedly will be disadvantages, as well as advantages, along with its use. This is true of trading stamps and trading stamp plans.

Cost to Retailer. The most frequently mentioned objection to trading stamps is that of their cost. The retailer's cost of using trading stamps can range anywhere from 1.5 to 3.0 per cent of sales, depending on the trading stamp program chosen and the amount of stamps used. The quantity discounts offered by the various stamp companies allow only the largest users of trading stamps to receive the minimum price available. This works against the smaller retailer who must pay a higher cost for his stamps because he does not have the volume of the larger retail establishments but who needs the lower cost to compete with the larger stores.

[35] Ibid., pp. 106-7.

It is not so much that the 2 to 3 per cent cost of trading stamps is outrageously high in comparison to total sales, but when it is compared to a profit margin that is as small or smaller, the cost does become quite high, relatively. This is the situation that exists in many retailing fields today.

It should not be assumed that if a retailer has a profit margin of 2 per cent of sales and he adopts the use of trading stamps costing him 2.5 per cent of sales, that he would suffer a loss of 0.5 per cent of sales. Part of the cost of trading stamps can be absorbed in reduced expenses by improving margins and/or by increasing sales volume. That is to say, this can be accomplished if trading stamps are used effectively. As was shown in Table 11, trading stamps do not always bring about the results expected of them, and the cost of using trading stamps is not always covered by increased sales and their effect on expenses and margins. Results, as shown in Table 11, can, and do, occur and should be carefully considered by the retailer who is trying to decide whether or not to use trading stamps.

Offsetting Stamp Cost. This brings up another question about trading stamps that is asked by many retailers: How much of a sales increase is required to offset the cost of stamps?

The sales increase necessary to offset the cost of stamps varies with the type of retail store. In his book on merchandising with premiums, published in 1962, George Meredith reported that his findings indicate that retail food stores must have a 15 to 20 per cent increase in gross volume to make trading stamps pay off. Gasoline service stations must increase their dollar sales

by approximately 10 per cent. Drug stores, hardware stores, and other small retailers require only a 5 to 6 per cent increase in sales to make trading stamps pay off. In order for trading stamps to pay for themselves, the sales increase must be maintained as long as stamps are used.[36]

A Business Week article in May of 1956 discussed this point of sustained sales increases in some detail. The various reports indicated there is wide variation in beliefs about the increased sales volume necessary to make the use of trading stamps profitable. The Top Value Stamp Company states that a 15 per cent sustained increase in sales is necessary to make trading stamps pay. The Eagle Stamp Company, one of the oldest stamp companies, believes that a 20 per cent increase is necessary. Both of these stamp companies are referring only to the retail food field. Sperry & Hutchinson are more specific in their statement as they claim that food stores must maintain a 20 per cent increase in sales; drug stores and hardware stores, a 5 per cent sales increase; and gasoline stations, a 10 per cent sales increase. The results of a survey made by the National Association of Food Chains showed higher estimates of the sales increase necessary to make trading stamps pay for themselves. They estimated that a retail food store must increase its sales by 33 per cent in 90 days if stamps are to pay off. The Boston Gasoline Dealers Association figures that it requires a 15 per cent sales increase to make stamps pay off for service stations in the Boston area.[37]

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[36] Meredith, op. cit., p. 151.

[37] "Trading Stamps: Ban or Boom?", op. cit., p. 58.

Eugene Beem, who presently is Economic Consultant for the Sperry & Hutchinson Co., wrote an article for the Harvard Business Review while he was an Assistant Professor of Business Administration at the School of Business of the University of California. In that article he estimated the direct profit ratios and stamp costs for typical retailers in various fields, and approximated the gains in sales required to offset stamp costs. He suggested that even if the management of a retail concern thinks his establishment can break even or profit from trading stamps, he should still check to see if there isn't some other investment which will provide a more enduring advantage than that offered by trading stamps. Table 13 shows the estimates of Mr. Beem.

Vredenburg stressed the importance of the retailer studying his share of the market in his area before taking on trading stamps as a promotional device. For the higher the ratio of business in the market which a store obtains, the more difficult it is to offset the cost of stamps with increased sales volume. This is true because the present volume of business, as well as any increased business, will require stamp expense. Thus, the cost of stamps to cover present sales must be regarded as an investment necessary to gain whatever increase that is realized. So if a store already has a large share of the business in its market, the cost of giving stamps on the old business becomes very difficult to overcome.

The volume of sales increase necessary to break even on the cost of stamps is important to consider and is affected by several things. The first, and most important consideration, is the

Table 13. Sales increases required by different types of representative retailers to offset stamp costs.

Type of retailer	Typical gross margin[1]	Estimated direct profit--before stamps[2]	Estimated stamp cost as a % of sales[3]	Estimated direct profit--after stamps	Sales gain needed to break even
	Per cent				
Department stores	36	31	1.9	29.1	7
Tourist courts	59	44	2.7	41.3	7
Florists	47	43	2.7	40.3	7
Jewelry stores	44	42	2.7	39.3	7
Drug stores	34	32	2.7	29.3	9
Furniture stores	38	33	2.7	30.3	9
Auto repair stores	44	30	2.7	27.3	10
Hardware stores	30	28	2.7	25.3	11
Sporting goods	30	28	2.7	25.3	11
Lumber and building material dealers	25	23	2.7	20.3	14
Service stations	24	22	2.7	19.3	14
Supermarkets	18	14	1.9	12.1	16

[1] From Expenses in Retail Business.

[2] Gross margin less expenses which will vary with extra sales.

[3] The typical cost is between 2-3 per cent of stamp-covered sales, depending on the quantities in which the stamps are purchased.

Source: Eugene R. Beem, "Who Profits From Trading Stamps"? Harvard Business Review, Nov.-Dec. 1957, reprint, p. 134.

expense ratio. If a store finds it can handle more business with little or no increase in operating expense, the additional volume of sales required to break even is not so great. Secondly, the net profit ratio of the firm will determine just how large the sales increase will have to be if the expense ratio remains unchanged. Thirdly, the cost of stamps will also affect the sales

increase required for the firm to break even.[38]

The retailer must realize that trading stamps are not an instant cure-all and they will not work successfully in every situation. Trading stamps can burden the retailer greatly if he does not study the various factors and considerations mentioned above. After such a study the retailer can determine if he will benefit his retail operations.

Stamps and Retail Prices. Another disadvantage of trading stamps is that they may force the retailer to raise his prices to the consumer. If the retailer finds that the increased sales volume will not offset the cost of stamps and if he has not been able to reduce his expense ratio, he may want to give up the use of stamps or he may want to raise his prices, thus passing the increased costs on to the consumer.

As has been shown in an earlier section of this paper, few retailers can raise their prices (because of adverse consumer reaction) to partially offset the cost of stamps, and if they do the price rise is very slight. If the retailer does not raise his prices to the consumer and his sales are not increased nor his expenses reduced, he will be forced to accept a lower profit and if profit margins are low, perhaps he will suffer a loss.

Saturation. Another question that many retailers ask about trading stamps has to do with saturation. What happens to the benefits of trading stamps when competitors in the area adopt them? Will the benefits be neutralized? These two questions frequently

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[38] Vredenburg, op. cit., p. 65.

are asked by retailers who are using trading stamps or are thinking about using them.

George Meredith claims that the statement that trading stamps lose their effectiveness when everybody uses them is valid only to a certain extent. First, everybody is not everybody as there will always be non-stamp users. Secondly, within the family of stamp users, there are many variations in handling and presentation.[39] In other words, the retailer can promote trading stamps in new and different ways and in this manner increase their effectiveness.

Vredenburg does not completely agree with Meredith on what happens when competitors adopt trading stamps. In his interviews and study, Vredenburg found that most store managers who used trading stamps expected the benefits of trading stamps to be neutralized as their competitors adopted them. Many of the retail operators stated that the only way to be on top in a competitive market was to be first with the best promotions. When the gains from one promotion have been neutralized, some new promotion must be found. Retailers who use stamps feel that the first store to use stamps has the best chances of success because consumers can be educated to prefer its specific stamp. The first retailer to use stamps also would have first choice of stamp plans which would allow him to obtain the best and most sought after stamps.[40]

Difficult to Discontinue. Many retailers have found that one disadvantage of trading stamps is that once they are put into use

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[39] Meredith, op. cit., p. 148.

[40] Vredenburg, op. cit., p. 112.

they are very difficult to discontinue. Even if the use of trading stamps is causing the retailer a loss of profits or if trading stamps have lost their big competitive edge due to competitors using them, retailers are reluctant to discontinue the use of stamps because such an action could result in loss of sales and customer ill-will.

Many advocates of trading stamps ask why a retailer should quit using trading stamps if people demand them and they do have promotional appeal. The answer to this question is this: Even if a trading stamp is desired by the consumer and it will increase sales, there is nothing that insures the retailer that the cost of using trading stamps will be covered by the increased sales or other advantages attributed to trading stamps. If a retailer finds himself in a position where trading stamps are increasing his sales but not enough to increase his profits, he may as well get out of that situation by dropping trading stamps. But, as many retailers found out, it is easier to put a stamp plan into action than it is to take one out of action.

Increased Advertising Expenditure. One frequently heard complaint about trading stamps is that a retailer is forced to increase advertising expenditures to promote stamps. The magazine Advertising Requirements conducted an interview with John Young, general sales manager of Eureka Specialty Printing Company. Being sales manager of a firm that prints the vast majority of trading stamps, Mr. Young has knowledge of the various issues of trading stamp use. When asked about the effect of trading stamps on the retailer's advertising budget, Mr. Young replied: "In the

beginning, it should increase advertising somewhat, to start the program with power; later, the budget may run at previous levels provided a portion of it is allotted to promoting the stamps."[41]

Vredenburg stressed this same fact that advertising is usually increased at the beginning of trading stamp use. This is to let the consumer know that trading stamps are being offered in the retailer's stores. But Vredenburg also pointed out that the advertising expenditure might remain at a higher level than it was previous to stamp adoption if there is strong stamp competition in the market.[42]

This is the situation that may be forced on retailers as the point of saturation is approached. The retailer should note this as one of the disadvantages of trading stamps as competitors begin adopting them.

Restrict Store Operations. One criticism of trading stamps voiced by many volume retailers, such as supermarkets and gas stations, is that trading stamps slow down the whole store operation, especially during the rush periods of business. This can be a cause of dissatisfaction to both customer and retailer.

Reduce Retailer Flexibility. Some retailers feel that the fixed cost per cent of gross margin contracted to pay for stamps does not leave them adequate promotional maneuverability. The retail operator cannot adjust his trading stamp program as competitive changes occur to the extent that he can with his other

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[41] "An Expert Answers Your Questions About Trading Stamps," Advertising Requirements, January 1957, reprint, p. 134.

[42] Vredenburg, op. cit., p. 114.

expenses. Retailers feel that they would be in a more maneuverable position if there was freedom to adjust for outlays of stamps as there is with advertising, price specials, and special displays.

Stamps Require Safeguarding. Another annoying feature of trading stamps is that they must be safeguarded like money. Since trading stamps are redeemed for items of value, it does require that the retailer treat them as cash. It also requires that the retailer educate his employees to the value of the stamps so that they will not handle them carelessly. An employee is more likely to steal stamps than he would cash because many employees do not realize the cost of trading stamps to the retailer.

Reduce Market Potential. Many hardware, appliance, and department store operators object to trading stamps because the premiums obtained by trading stamps reduce their market potential. Stamp companies insist that stamps will increase the market for the type of merchandise used for premiums. This statement is very difficult to prove or disprove.

A recent study by the Federal Trade Commission found that 8 to 9 per cent of all electric toasters and from 12 to 13 per cent of all heating pads in this country are acquired through the redemption of trading stamps. It is also reported that linens and other small electric appliances were heavily traded through redemption centers but no exact figures are available on the amount.[43] According to this recent report, it does look like the retailer handling small appliances has a legitimate gripe against trading stamps.

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[43] "U.S. Takes Hard Look at Trading Stamps," Christian Science Monitor, Sept. 17, 1964, p. 7C.

Benefit to Stamp Companies. A frequent objection to trading stamps put forth by many retailers who are both stamp and non-stamp users is that the trading stamp company receives most of the benefit from trading stamps. This view was expressed in a study carried out by Business Week. Most retailers were irked by the fact that a third party, the stamp company, enters into the retail picture. The retailers do not think that an outside industry should be allowed to come in and live off their sales.[44] This is not a valid criticism of the stamp companies. The retailers who voice this criticism are not taking into consideration the role of the middleman in any economic process.

The retailer is charged a given rate for the stamps he purchases from the stamp company, and the rate is dependent on the volume of stamps he uses. The retailer issues these stamps to the consumers who make purchases from his store. The customer takes her stamps to a redemption center to exchange them for premiums. This is where the stamp companies benefit once again. Many of the stamps, which the retailer has paid for, never reach the redemption center. Many stamps are never redeemed because of "breakage," loss, or just because of saver non-redemption. So the premiums that have been indirectly paid for by the retailer through his purchase of trading stamps remain with the stamp companies, thus benefiting them. The only way this situation could be overcome would be for the retailer to pay for only the stamps that are redeemed. This, of course, would not be favored by the stamp companies.

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[44] "Trading Stamps: Bane or Boom"?, op. cit., p. 52.

There are factors about trading stamps, other than the disadvantages, advantages, and considerations, such as share of market and degree of stamp saturation among competitors, that the retailer must study before taking on trading stamps. First, the retailer must be sold on the idea of trading stamps. If the retailer does not fully accept trading stamps, he will not give them the attention they need to be successful. So to succeed with trading stamps a retailer must have a receptive attitude towards them.

The retailer's attitude toward trading stamps cannot be one that looks upon trading stamps as a cure-all for all retail problems. Trading stamps should not be a substitute for good customer service, good housekeeping in the store, proper inventory display and pricing, and the other essentials that go to make up a successful retail operation.[45]

One final realization that the retailer must make about trading stamps is that they are nothing more or less than a merchandising tool. It is doubtful that the use of trading stamps creates more business in the economy; for the most part they merely redistribute the business that exists.

TRADING STAMPS IN KANSAS

The position of trading stamps in Kansas is a unique one. As early as 1917, the Kansas legislature enacted a law which required those issuing trading stamps to secure a license, with

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[45] "Trading Stamps--Friend or Foe?", *op. cit.*, p. 5.

prohibitorily high fees. Kansas was not alone in making this type of legislation as several states and the District of Columbia attempted legislation of this type.

In 1957, Kansas passed a law (Senate Bill 362) that prohibits the use of trading stamps altogether. This is the unique situation that exists in Kansas today, as it is one of the two states that prohibit the general use of trading stamps. Even more recently, in 1963-64, some 61 cities in Kansas have adopted ordinances banning trading stamps. The Kansas courts have held that the regulation or prohibition of trading stamps is a valid exercist of police power.

The retailer's opinion of the trading stamp ban in Kansas is expressed best in the policy and attitudes of the various retail groups and associations which represent the retailers of Kansas. It has been the efforts of retail associations such as the Kansas Food Dealers Association, the Kansas Conference Retail Association, the Kansas Petroleum Industries Association, and the Kansas Chamber of Commerce that brought about the successful passage of the Kansas legislation banning trading stamps.

The Kansas State Chamber of Commerce has had a Chamber policy which supports "continued prohibition of the use of trading stamps in Kansas."[46] In June of 1964, the State Chamber's Board of Directors directed that a poll be taken to determine the opinion of the members of the various Chambers of Commerce throughout the state on the trading stamp ban. The results of the poll were used

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[46] Kansas Opinion Poll on Trading Stamps, State Chamber of Commerce, June 15, 1964.

as advisory to the State Chamber Board in reviewing the Chamber's policy supporting the continued ban of trading stamps. The results of the poll supported the current Chamber policy that there should be a continued prohibition of the use of trading stamps in Kansas. There were 1,067 questionnaires returned by the various businessmen and industries throughout the state. Of that total, 882 returned ballots favoring the principle of present Kansas law prohibiting the general use of trading stamps. There were 185 members opposing the present Kansas law.[47]

Even though signatures were not required on the returned questionnaires, most of the forms were signed and the vast majority were returned in envelopes with return addresses. This enabled the State Chamber Research Department to identify various businesses and industries and provided a categorical breakdown. The detailed results of the poll are found in Table 14.

There are six major arguments put forth by the Kansas State Chamber of Commerce which support the continued prohibition of trading stamps in Kansas.

1. By playing one merchant against another (in the absence of a prohibiting law), the trading stamp companies play the major role in making the decision as to the use of trading stamps and may force an unwanted stamp plan on the entire community.

2. Stamps are only one of many questionable trade promotional tools which have been regulated by legislation in the public interest, such as prize drawings (lotteries), false advertising, and other practices preying upon the public.

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[47] "Results of Membership Poll on Trading Stamps," <u>Kansas State Chamber Reporter</u>, Vol. 2, No. 6, July 1964.

Table 14. Trading stamp voting analysis--according to voting classification, July 1964.

Business classification	Favoring present law	Opposing present law
Agriculture	8	2
Mining	18	10
Contract construction	39	6
Manufacturing	80	31
Public utilities	36	7
Transportation	16	12
Wholesalers and retailers	350	28
Finance	120	25
Banks	(76)	(12)
Savings and loans	(8)	(1)
Insurance	(24)	(7)
Security dealers, finance companies, and real estate	(12)	(5)
Service	190	38
Lawyers and CPA's	(48)	(13)
Doctors and clinics	(26)	(6)
Radio and TV	(6)	(2)
Laundries and cleaners	(8)	(0)
Associations	(17)	(4)
Funeral homes	(5)	(0)
Education	(7)	(6)
Hotels and motels	(6)	(4)
Chambers of Commerce	(67)	(3)
Government	2	0
Unidentified	23	26
Totals	882	185

Source: "Results of Membership Poll on Trading Stamps," Kansas State Chamber Reporter, Vol. 2, No. 6, July 1964.

3. The cost of stamps--2 to 3 per cent of gross sales--must be added some place. It is inevitable that at least some of this cost will be passed on to the consumer.

4. Stamp savers are only fooling themselves by thinking that premiums are 'free' and that they are 'getting something for nothing.'

5. Any benefits of trading stamps as a promotional tool become neutralized when competitors adopt stamp plans.

6. Trading stamps in themselves add nothing to the wealth of the state; they simply shift the distribution pattern of the retail sales dollar.[48]

The Kansas State Chamber further stated that the Kansas position is economically sound in refusing to add the cost of trading stamps to the distribution process; the few new jobs created would be more than offset by the drain of stamp company profits (including an unearned winfall from unredeemed stamps) away to other states.

The retailer may profess to be protecting the consumer by supporting the ban on trading stamps, as can be seen in several arguments against trading stamps put forth by the Chamber of Commerce, but he is really only looking out for himself. In an earlier section of this paper it was shown that very few retailers pass the cost of stamps on to the consumer and if they did, the increase was very small. Even when the increase is subtracted from the value of the stamps, the consumer still receives value from redeeming the stamps. So if the consumer doesn't need to be protected from trading stamps, it must be the retailer who is being protected by the trading stamp ban.

The Kansas trading stamp ban does just that; it protects the retailers of Kansas from being forced into something that the majority of them do not want.

Retailers fear trading stamps more than they do other types of promotional devices mainly because of cost of trading stamps which is a fixed per cent of sales. If sales increase or if sales

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[48] Kansas Opinion Poll on Trading Stamps, op. cit.

decrease, the cost of stamps to the retailer will remain between 2-3 per cent of sales. This is not true of other promotional tools such as advertising, displays, and price specials. If sales decrease, advertising expenditures can also be decreased to any level. The same is true of displays and price specials, but it is not true of trading stamps. So many trading stamps are issued per dollar of sales no matter what the situation is. Thus, the retailer has more control over most other types of advertising and promotional expenditures than he does over trading stamps. Trading stamps are also more difficult to discontinue than other promotional tools.

Whether Kansas is progressive or behind the times with its ban of trading stamps is not questioned here. The importance of the Kansas antistamp law comes from the fact that the majority of Kansas business and industry does not want to have trading stamps as a part of its operations.

SUMMARY

Trading stamps do offer the retailer some definite competitive advantages. They do have tremendous appeal to the consumer and for this reason many consumers will shop only at stores that offer a certain brand of trading stamp. Customers find themselves "locked in" to a certain buying pattern because of their desire for trading stamps. This, of course, is the retailer's purpose in using trading stamps. He wishes the customers who shop at his store to be loyal patrons. This is one of the advantages trading stamps offer the retailer.

One of the most important advantages offered by trading stamps is that of increased sales volume. Retailers who use trading stamps acclaim this advantage very highly and their reports indicate that trading stamps have done much to increase sales volume.

Retailers are as interested in improving their profit margins and expense ratios as they are in increasing their sales volume. Trading stamps can improve the retailer's margins and expense ratios so this is another possible advantage to the retailer.

Trading stamps also can be used by the retailer to spread his sales volume more evenly over the entire week. He does this by offering bonus stamps to all customers who shop on a usually slow day for the store. This usually works successfully. By spreading the sales volume evenly over the entire week, the retailer makes better use of his facilities and he often cuts down the labor requirement as no extra part-time workers are required to handle rush periods; with the sales spread evenly over the week, the rush period is eliminated.

Other advantages offered by trading stamps are: They stabilize business as the customers become stamp savers and they return to purchase more of their daily needs in one store rather than spreading their purchases out over several stores.

One advantage trading stamps have over other types of promotional devices is that the effect of trading stamps is sustained. Reports vary, but some stores indicate that trading stamps can influence a customer even after two years of use.

Trading stamps also help the retailer reduce his credit sales because trading stamps are offered only on cash purchases. They also can help to eliminate such customer services as phone orders and deliveries.

When a retailer uses trading stamps he has less need to run specials, to cut prices, or to offer leaders because stamps are enough of an attraction to the consumer. Trading stamps also cut down on the management time required to go into such price promotions. Trading stamps are not without their disadvantages. One of the biggest disadvantages to the retailer is the cost of the stamps. This cost may range from 1.5 to 3.0 per cent of sales, depending upon the quantity purchased. Although this amount does not seem tremendously high in comparison to total sales, when comparing it to a profit margin that is that small or smaller, the cost of trading stamps is relatively quite high.

Some of the cost of trading stamps can be offset by increased sales volume, reduced expenses, and improved margins but not in all cases will this happen. To make trading stamps pay off, the retailer must increase his sales and sustain that increase. In the retail food field, the sustained sales increase must be between 15 and 20 per cent; in the gasoline service station business, an increase of 10 to 14 per cent is necessary; and hardware stores, drug stores, and other small retailers must increase sales at least 5 to 6 per cent. In many cases this sustained sales increase is impossible to attain, while in other cases it is readily achieved.

Trading stamps may cause retailers to raise their prices in an attempt to offset the cost of stamps, but studies conducted to date have shown that this is not too common an occurrence.

Another alleged disadvantage of trading stamps is that as more and more retailers begin using trading stamps in an area, their effectiveness as a promotional device will decrease. It is the first retailer who uses trading stamps that gains the most advantage from them. All late comers are at a definite disadvantage.

Many retailers have found that one disadvantage of trading stamps is that once they are adopted, they are very difficult to discontinue.

Another frequently heard complaint about trading stamps is that a retailer is forced to increase his advertising expenditure to promote stamps. This is true in at least two points in the life cycle of stamp use. First, as trading stamps are introduced the retailer must let the consumer know he is offering stamps and this will require additional advertising expenditures. There will then be a period when the advertising expenditure could be cut down as stamps will sell themselves. As more and more competitors begin to use trading stamps, the retailer again will have to increase his promotion of stamps and this will require increased expenditure. For when most retailers use trading stamps each individual retailer must try to convince the consumer that the stamps he offers are the best.

There also are many annoying features of trading stamp use. One, voiced by many volume retailers, is that trading stamps slow

down store operations, especially during rush periods. Retailers also must safeguard trading stamps and treat them as cash for they do have a cash value to the retailer and to the consumer.

The fixed cost of trading stamps is often a disadvantage to the retailer as it cuts down on his flexibility and does not allow him promotional maneuverability as other promotional devices such as price leaders and special displays allow.

One disadvantage of trading stamps to hardware stores, appliance stores, and department stores is that the premiums obtained by trading stamps are the same merchandise that they are trying to sell.

One of the most frequent criticisms of any trading stamp plan that is voiced by stamp and non-stamp users alike is that it is the stamp company that receives most of the benefit from trading stamps. In the cases where trading stamps do not increase sales and only increase expenses, this complaint is justifiable.

In Kansas the opposition to trading stamps became so great that a law was enacted banning the use of them. Whether Kansas is progressive or behind the times with its ban of trading stamps is not questioned here. The importance of the Kansas anti-stamp law comes from the fact that the majority of Kansas business and industry does not want to have trading stamps as a part of their operations.

CONCLUSIONS

Trading stamps are not a cure-all that a retailer can turn to to help correct an ailing business. They are simply another

promotional tool which may be used by him perhaps to better his competitive situation. He must realize that trading stamps, in most cases, do not create more consumption but they only redistribute the business that exists. Whatever competitive advantages he gains from trading stamps will be gained at the expense of other retailers in his own field and in related fields.

The retailer's decision whether or not to adopt trading stamps is a very important one. He must weigh carefully both the advantages and disadvantages of trading stamps in a very objective manner. All too many times the good side of trading stamps is the only one stressed. The increased sales volume, the improved profit margins, and the reduced expenses all sound very tempting. But before he is hypnotized by these promises he should check into his own competitive situation to see if these results are possible with his firm. A very important consideration that must be studied is that of the retailer's share of the market. Will he be able to capture enough (of the share of the market he doesn't have) to make stamps pay off? If he doesn't get the necessary sales increase he will not be able to experience the other benefits of trading stamps such as reduced expenses or improved profit margins.

The retailer must realize that trading stamps could do more harm than good to his business. He should carefully study the advantages trading stamps can offer and weigh them against the disadvantages that they can cause. Each retailer must make this study on an individual basis. He must determine what advantages and disadvantages will hold in his own competitive situation. The retailer could find that the total effect of trading stamps would

not be advantageous in his retail situation and that he would not adopt trading stamps. The opposite could also be true as a retailer may find trading stamps will have a very beneficial effect in his situation.

One of the main factors that the retailer must study is the position of trading stamps in his own market area. The chances of success in using trading stamps is greatly decreased as more and more competitors begin offering trading stamps. The first retailer to use trading stamps undoubtedly will receive the most benefit from them. It is unlikely that competitors who adopt stamps will have the success experienced by the first retailer who adopted them.

Trading stamps are nothing but a merchandising tool and they are no substitute for sound operating principles and sound merchandising policies. If trading stamps are used wisely and correctly, they can be of help to the retailer but trading stamps can not be used profitably in all retail situations.

The wise retailer will study the situation carefully to determine whether or not trading stamps can be of benefit to his business. He should not be overwhelmed by reports of extreme sales increases or of improved profit margins; nor should he shudder at the various disadvantages of using trading stamps. These reports should act only as indications of what is possible when trading stamps are adopted. Trading stamps must be studied objectively and on the basis of the individual retail situation because trading stamps do not succeed in every retail situation.

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TRADING STAMPS AND THE RETAILER

by

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Trading stamps have had a long and controversial history. There have been numerous studies made concerning trading stamps and the areas of the economy they affect. The major portion of these studies has dealt with trading stamps and their value to the consumer. There have been relatively few studies concerning the retailer and his use of trading stamps.

With trading stamps accepted as they are by the consumer it would seem that the retailer would be all too willing to use trading stamps as a promotional device. This is not the case, as many retailers and retail associations have vigorously opposed trading stamps. One state, Kansas, has enacted legislation that bans the use of trading stamps.

It is the purpose of this report to study the various aspects of trading stamps from the viewpoint of the retailer. Both the positive and the negative aspects of trading stamp use are studied objectively in an attempt to draw some conclusions about the retailer's use of trading stamps.

This report will be mainly a library study in which the literature concerning the retailer and his use of trading stamps will be reviewed. The period from 1950 to the present time will receive the most emphasis.

Trading stamps can offer the retailer several advantages over other types of promotional devices. There are three major advantages offered by trading stamps. They are increased sales volume, improved operating ratios, and a more even distribution of sales. Of these three, the increased sales volume is the most widely acclaimed advantage of trading stamp use. Although

spectacular sales increases have been reported, an average sales increase would range between 17 and 28 per cent.

Trading stamps offer several additional advantages to the retailer. They help to stabilize business as they create consumer loyalty. The promotional effect of trading stamps is sustained; whereas most promotional devices used by the retailer have very short lives. Trading stamps help to reduce credit sales. When trading stamps are used there is less need for other types of promotion. They also help to reduce the amount of time management must spend on preparing promotions.

Trading stamps are not without their disadvantages. The largest disadvantage of trading stamps is their cost to the retailer which will range between 1.5 and 3.0 per cent of sales, depending on the quantity discount. Part of the cost of stamps can be offset by increased sales, but the sales increase necessary is large and it must be a sustained increase. The amount of increase varies with the type of retail store.

Another alleged disadvantage of trading stamps that is often expressed by critics is that retailers may be forced to raise their prices to cover the cost of stamps. Various studies have found that very few retailers do raise their prices after "taking-on" trading stamps.

Trading stamps seem to lose their effectiveness as more and more competitors begin issuing them. It has been found that the first retailers to use trading stamps receive the greatest benefit.

Retailers find that once a trading stamp plan has been adopted it is very difficult to discontinue without creating some

customer ill-will.

The retailer may find that trading stamps cause advertising expenditures to increase. This is especially true when trading stamps are first adopted and, then again, when more and more competitors begin issuing stamps.

Additional disadvantages of trading stamps are: they restrict store operations, especially during rush periods; they reduce retailer flexibility; they require safeguarding as they must be treated as cash; and the premiums obtained by redeeming stamps reduce the market potential of retailers who sell items similar to the premiums.

In Kansas the opposition to trading stamps became so great that a law was enacted banning the use of them. Whether Kansas is progressive or behind the times with its ban of trading stamps is not questioned here. The importance of the Kansas anti-stamp law comes from the fact that the majority of Kansas business and industry does not want to have trading stamps as a part of their operations.

In conclusion: The retailer should carefully study the advantages and disadvantages of trading stamps in light of his own competitive situation. Trading stamps work successfully in some situations, while in others they are not successful. The retailer may find that trading stamps would greatly improve his competitive position or he may find that stamp use would prove costly to his operations.